

It's Going to Get Worse

Economist David Lereah was once the housing market's biggest cheerleader. Now he says the bust isn't near over, and home prices still have a long way to fall.

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Whenever a boom goes bust, there's always a round of finger pointing and blame assigning, of people asking "Why didn't the experts see this coming?" So as the housing bust has morphed from a cyclical downturn into a full-blown crisis, there's been no shortage of culprits. Some blame Alan Greenspan for badly orchestrated monetary policy, a charge against which he's lately been [fighting back](#). Some blame the [subprime lenders and the brokers](#) who found clients for them; together they underwrote many of the loans that are now causing so many foreclosures and so much pain.

And at least a few observers include an industry economist in this lineup: David Lereah, the former chief forecaster for the National Association of Realtors, whose irrational exuberance for real estate has led to some measure of ridicule.

Let me confess at the start: I spoke with Lereah frequently during the boom, and I always found him to be a smart, thoughtful observer. Sure, his assessment of the real estate market was consistently upbeat, but that's hardly surprising given that he served as chief spokesman for a trade organization that believes [it's always a good time to buy a home](#). And the truth is I feel a little sorry for the teasing he has absorbed since the housing bubble burst. Yes, he did publish a book in 2006 with the unfortunate title "[Why the Real Estate Boom Will Not Bust](#)"—but he didn't pick the title, the same way columnists like me aren't always thrilled by the headlines our editors put atop our stories. And while I thought it was funny when my colleague [Daniel Gross](#) and [others](#) compared Lereah to [Baghdad Bob](#), the Iraqi information minister who repeatedly announced his army's military successes even as U.S. tanks were overtaking the capital, I can't help feeling bad for him. But if you judge from the [blogosphere](#), I'm in the minority with my sympathy.

It's been more than a year since Lereah left NAR, so I called this week to check in. It turns out he has recently set up a new firm called Reecon Advisors, which is advising Wall Street firms and institutional investors about the real estate market. "Wall Street has an intense interest in [this], because they're looking for when is the recovery going to come, and at what point does the cycle turn," Lereah told me.

His answer: not yet. "We're not at the bottom," he says. "[People] want it to be near the bottom, but we're not there yet. The leading indicators are still very bad. Pending home sales are still in bad shape. Mortgage applications are low ... There's still supply out there in abundance ... This thing is going to get worse before it gets better."

Lereah says that the industry may begin to see a slight uptick in sales later this summer, which could signal the start of the recovery. Home prices, however, will continue to fall. According to the latest numbers from the Case-Shiller index, the average U.S. home has lost around 15 percent of its value since the market's peak. "We're probably going to end up with a 20 percent [decline], but if I'm wrong it will be even more than that," he says.

That's quite a turnabout from the view he articulated in his book, first published in 2005. There he argued that the solid economy, strong demographics (including immigration and aging boomers), and a lean supply of homes should lead prices to continue rising for years to come. "Today's real estate market is the result of rational decision making based on supply and demand conditions," he wrote. "With today's economy, home owners are in no danger of experiencing a widespread fallout of home prices."

Oops. "You knew there were a couple of [regional] balloons out there, and [I] said you could have a couple of these balloons pop," Lereah says now. "But I didn't think this would turn into an all-out bursting of a balloon for the whole nation." He, like other prognosticators (including Greenspan), points to his lack of understanding of the profound effects that subprime lending was having on housing markets. "[I] just didn't realize the scope, the extent, the magnitude of the loose underwriting—not looking at incomes and wages, just providing so many mortgage loans based on [expected] future price appreciation rather than the creditworthiness of the borrower," Lereah says. "That got so out of hand, and none of us realized the magnitude of it until it was too late."

Now, as the market continues to worsen, Lereah is skeptical of many of the rescue plans being touted in the media. He was particularly unimpressed by Hillary Clinton's proposal for a 90-day moratorium on foreclosures. "That was, to me, just wacky. Don't try to control the market—that's not going to do anybody any good."

Lereah does think that [the House bill co-sponsored by Barney Frank](#)—which was recently passed by the House Financial Services Committee and now awaits a full House vote, is the right idea. Frank's bill would serve to modernize the Federal Housing Administration (FHA) by increasing loan limits in high-cost areas like California and New York, authorizing zero-down and low-down payment loans for more homebuyers, and generally improving access to mortgages for lower-income folks who have faced bigger hurdles to a home loan since the credit crunch began last fall.

"Every time you have something like this you overreact the other way," Lereah says. He sees Frank's efforts to boost the FHA's role as a solid countermeasure that may help the market. While he was an economist at NAR, Lereah was also a real estate investor himself, at one point owning 10 condominiums from Virginia to Florida, which he rented out. Today he still owns seven of them, and aside from one that's languishing unrented, the other six are still making money, he says. So even if his forecasting record is mixed, his in-the-trenches investment record appears more solid.

At his new firm he's also looking to cash in on the weak market. He's currently talking with several Wall Street folks about setting up an investment fund that would buy pools of distressed real estate, which it would convert into rentals. "We think there are some very good acquisitions that can be made," he says.

So even if this slump remains far from over, David Lereah still thinks it may be a smart time to buy.

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